

1                               **COMMONWEALTH OF MASSACHUSETTS**  
2                               **DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

3  
4                               **Western Massachusetts Electric Company**

5                               **D.T.E. 03-88F**

6                               **January 20, 2004**

7  
8                               **Direct Testimony of Edward A. Davis**

9  
10       **Q. Please state your name, business address and position.**

11       A. My name is Edward A. Davis. My business address is 107 Selden Street, Berlin, CT  
12       06037. I am the Manager of Pricing Strategy and Administration for Northeast Utilities  
13       Service Company, which provides centralized administrative services to Northeast  
14       Utilities' affiliates, including Western Massachusetts Electric Company ("WMECO" or  
15       the "Company").

16  
17       **Q. What are your responsibilities with the Company in this position?**

18       A. I am responsible for activities related to rate design, cost-of-service analysis and rates  
19       administration for WMECO.

20  
21       **Q. What is the purpose of your testimony?**

22       A. The purpose of my testimony is to describe the rate adjustments resulting from  
23       implementing the Department of Telecommunications and Energy's ("Department")  
24       Order, D.T.E. 03-88 dated November 17, 2003, to include certain costs in Default Service  
25       rates. I begin by describing the calculations to determine the costs to be included in

1 Default Service rates, and then describe the appropriate allocation of those costs to  
2 determine the rate adjustments necessary for their implementation.

3 **Q. What costs have you included?**

4 A. The Order directs companies to look at wholesale costs and direct retail costs.

5 Wholesale costs include those for (1) the design and implementation of the solicitation  
6 process and (2) the ongoing administration of the Default Service supply contracts.

7 Direct retail costs include those associated with (1) unrecovered bad debt, (2) compliance  
8 with regulatory requirements, (3) communications and billing systems, and (4)

9 compliance with the renewable portfolio standards ("RPS"). I describe these costs below.

10 RPS costs are not listed separately because such administrative costs are part of other  
11 wholesale administrative costs. The Company has prepared estimates of these costs as  
12 they are projected on an ongoing basis by extrapolating the cost of 2003 activities to  
13 reflect four solicitations per year. A summary of these costs and their allocation from  
14 Distribution service to Default Service rates is provided in Exhibit EAD-1. Details  
15 supporting these costs are provided in Workpapers 1 and 2.

16

17 **Q. Please describe your calculation of costs associated with the design and**  
18 **implementation of the solicitation/procurement process.**

19 A. WMECO's design and implementation costs are associated with the preparation for  
20 and issuance of the Request for Proposals, development of the contract, negotiation with  
21 bidders and contract execution. An additional cost for WMECO is the fee of the  
22 independent third party consultant that is retained by the Division of Energy Resources  
23 (but paid by WMECO) to review each solicitation. This independent review was

1 mandated by the Department in D.T.E. 97-120 (1999) to ensure a fair and  
2 nondiscriminatory procurement process. The costs associated with the design and  
3 implementation of the solicitation process are shown in Workpaper 2  
4 (Procurement/Contract Negotiations and Other Costs.)

5

6 **Q. Please describe the costs associated with the ongoing administration of**  
7 **WMECO's Default Service supply contracts.**

8 A. WMECO's ongoing administration of Default Service will include four  
9 solicitations per year, as reflected in Workpaper 2 (Contract Administration.) As  
10 determined in D.T.E. 02-40-B, two solicitations will be solicitations for large  
11 commercial and industrial customers and two will include solicitations for smaller  
12 customers as well as large commercial and industrial customers. Each procurement  
13 will involve contract review, billing and other administration including ISO-NE  
14 reporting.

15

16 **Q. What costs have WMECO identified as unrecovered bad debt?**

17 A. The amounts associated with bad debt are the actual dollars written off each  
18 month for variable and fixed Default Service recorded by WMECO, as shown in  
19 Workpaper 1.

20

21 **Q. Please describe the direct retail costs associated with WMECO's Default**  
22 **Service obligations.**

23 A. Direct retail costs are those associated with developing Default Service rates,  
24 preparing, processing and distributing information and results associated with

1 WMECO's Default Service tariff filings. These costs are listed in the activities for  
2 Communications, Billing Implementation/Review, Regulatory and Other Cost in  
3 Workpaper 2.

4

5 **Q. Please describe the allocations of these costs for ratemaking purposes.**

6 A. A total of \$1,145,331 is proposed to be allocated to Default Service rates, as  
7 shown in Exhibit EAD-1. The exhibit shows that, on an annual average rate basis,  
8 Distribution rates would decrease by \$.00029 per kWh and Default Service rates  
9 would increase by \$.00149 per kWh. These rates are derived using 2003 total  
10 company billed sales for Distribution service and 2003 total billed fixed plus variable  
11 sales for Default Service. Subject to the timing of rate changes described below, a  
12 direct adjustment to Default Service rates may readily be made using the average  
13 rate. However, such an adjustment is not readily made for Distribution service  
14 rates as not all charges for Distribution service are based on a per kWh pricing.  
15 While one approach may be to apply a per kWh credit to the Distribution component  
16 of bills to offset the increase to Default Service, the Company proposes to defer and  
17 address the actual design of Distribution rates as part of its next Default Service  
18 tariff filing.

19

20 **Q. When does the Company propose to implement rate changes?**

21 A. The Company proposes that the level of costs to be allocated and recovered from  
22 Default Service rates be determined in advance of its next regular, semi-annual  
23 Default Service tariff filing for all rate classes following the Department's Order in  
24 this proceeding. For WMECO, the next filing for all Default Service rate classes is

1 planned for May 2004 for rates to be effective July 1, 2004. As I have indicated  
2 above, the Company currently sets Default Service rates semi-annually for all  
3 customers and quarterly for its large commercial and industrial customers. Given  
4 that the allocation of Default Service costs out of the Distribution component of rates  
5 relies on sales for all rate classes, the Company proposes to maintain consistency in  
6 adjusting rates for Default Service costs by implementing these adjustments at the  
7 time the Company's semi-annual Default Service pricing is determined.

8

9 **Q. Does this conclude your testimony.**

10 A. Yes.